

Guide for Corporations Starting Business In California

This guide is intended to assist corporations filing their first:

- California Corporation Franchise or Income Tax Return (Form 100) or
- California S Corporation Franchise or Income Tax Return (Form 100S) or
- Bank and Corporation Estimated Tax Payment Voucher (Form 100-ES).

This guide will enable you to:

- understand the basis of the tax;
- receive forms and instructions quickly;
- file returns correctly; and
- avoid unnecessary penalties and interest.

Definitions of Terms Used in This Guide

Corporation — An entity incorporated or qualified through the Office of the Secretary of State and/or doing business in California. Technically, banks are not corporations. Any reference to a “corporation” will not apply to banks for the purposes of this guide unless specifically included. Financial corporations are not considered to be banks.

Calendar Year — A period of 12 months ending on December 31.

Fiscal Year — A period of 12 months ending on the last day of any month other than December.

Income Year — Calendar year or fiscal year used as the accounting period for which the net income is computed.

Accounting Period — Same as “Income Year.”

Taxable Year — Calendar year or fiscal year for which the tax is due.

Doing Business — Actively engaging in any transaction for the purpose of financial gain or profit.

Prepayment Paid Upon Incorporation or Qualification — The payment of the minimum tax of \$800 made to the Secretary of State upon incorporation or qualification is for the privilege of doing business within California during the corporation's first year. This prepayment cannot be claimed as a credit against the tax reported on the first return filed by the corporation. It also cannot be claimed as an estimated tax payment.

S Corporations

California has adopted most of the federal provisions for S corporations. However, there is a tax at the corporate level in addition to the individual tax on the pass-through income. Federal S corporations doing business in California or having California source income are subject to California tax as S corporations unless they made a California C corporation election. They must file Form 100S and pay at least the minimum franchise tax (if applicable) or the 1.5% (for income years beginning prior to January 1, 1994 use 2.5%) income or franchise tax. See Form 100S, California Tax forms and Instructions for S Corporations, for more information.

Imposition of Tax

Corporation Franchise Tax

The corporation franchise tax is imposed for the privilege of exercising the corporate franchise in California. It is imposed on all corporations, qualified or nonqualified, which do business in California.

The corporation franchise tax is a prepaid tax for the privilege of “doing business” during the year. It is measured by the income of the preceding year (income year) for the privilege of “doing business” in the following year (taxable year). The tax for the first taxable year (whether or not a full 12 months), which is also the first income year, is the minimum tax paid at the time of incorporation or qualification in this State.

Example: Corporation ABC filed Articles of Incorporation and paid the minimum tax of \$800 to the Secretary of State on February 12, 1994. The corporation adopted a calendar year accounting period.

The payment of the minimum tax of \$800 to the Secretary of State is for the privilege of doing business during the first taxable year, 1994. It cannot be claimed as a credit or an estimated tax payment.

Corporation ABC must pay its first estimate installment of at least \$800 on or before June 15, 1994. (See Installment Due Dates and Amounts Payment on page 3 for more information).

The first corporation franchise tax return due is for income year ended 12/31/94, and must be filed on or before 3/15/95. The tax paid on this return will serve as the payment of tax for the privilege of doing business during taxable year 1995.

Corporation Income Tax

The corporation income tax is imposed on all corporations that derive income from sources within California but are not doing business in California.

For purposes of filing a corporation income tax return, the term “corporation” is not limited to incorporated entities, but also includes:

- associations;
- Massachusetts trusts;
- business trusts; and
- real estate investment trust.

Minimum Franchise Tax

Unless otherwise exempted by law, all corporations doing business in California are subject to an annual minimum franchise tax. The minimum tax is \$800 per year, except that certain inactive gold mining corporations and quicksilver mining corporations must pay a minimum franchise tax of \$25 per year. To determine if your corporation is subject to the minimum franchise tax, multiply your California net income times the applicable tax rate listed on page 3, below the Installment Due Date chart.

If the corporation is inactive or operates at a loss during any income year, whether or not a full 12 months, its tax for the taxable year is the minimum tax. However, corporations which commence and cease doing business in the same year may be subject to more than the minimum franchise tax.

Apportionment of Income

Corporations with business income attributable to sources both within and outside California are required to apportion such income. See Schedule R, Apportionment and Allocation of Income, for more information.

Steps To Take

A new corporation in California, or a corporation newly qualified to do business in this state, should take the following actions to fulfill the requirements of the law:

Step 1 — Election of Annual Accounting Period

A newly incorporated or newly qualified corporation should notify the Franchise Tax Board of its accounting period as soon as possible in order to receive the forms needed to meet the filing requirements. In its first return the corporation may adopt any income year which meets the requirements of the law. Franchise Tax Board approval is not required. The corporation's income year end must not be different from the tax year used for federal purposes, unless initiated or approved by Franchise Tax Board. The first income period, however, cannot end more than 12 months after the date of incorporation or qualification in California. If the first period is a half of a month or less, it may be disregarded provided the corporation was not doing business in, and received no income from sources within this state. For a portion of a month to be disregarded under this rule, the corporation's Articles of Incorporation would have to be filed in the case of:

- (a) a 28-day month — on the 15th day or after
- (b) a 29-day month — on the 16th day or after
- (c) a 30-day month — on the 16th day or after
- (d) a 31-day month — on the 17th day or after

Example: Corporation ABC qualified with the Office of Secretary of State and paid the minimum tax of \$800 on October 10, 1994.

It elected a fiscal year ending October 31, as its accounting period; therefore, on or before January 15, 1995, a corporation franchise tax return is due for the short period income year ending October 31, 1994.

The \$800 paid on October 10, 1994 to the Office of the Secretary of State cannot be claimed as a credit or estimate on the return filed on or before January 15, 1995. The corporation must pay with the return a tax measured by the income reported on the return or \$800, whichever is greater, for the privilege of doing business in the taxable year ending October 31, 1994.

A change in accounting period or method requires consent from the Franchise Tax Board. However, a corporation that obtains federal approval to change its accounting period or method, or that is permitted or required by federal law to make a change in its accounting period or method without prior approval and does so, is deemed to have the Franchise Tax Board's approval. See Form 100 or Form 100S for additional information.

Step 2 — Paying Estimated Tax

One or more payments of estimated tax are required annually from every bank or corporation, unless exempt by law, using Form 100-ES, Corporation Estimated Tax.

The percentage of tax required to be paid for each installment is shown in the Time and Payment Schedule on the next page. The amount of the first installment cannot be less than the minimum franchise tax.

The estimated tax payments will be credited against the total tax shown on the return, as measured by income reported on the return. Any balance of tax due must be paid with the return. Any overpayment of tax, together with interest will be

refunded or applied to other taxes due. Interest is not paid on refunds made within 90 days of the return due date or the date the return is filed whichever is later. Refer to Form 100-ES, for specific instructions.

Note: The payment made to the Secretary of State at the time of incorporation or qualification is for the privilege of doing business during the corporation's first income year. This payment cannot be claimed as an estimated tax payment or credit against the tax liability shown on the return for the first income year.

Failure To Pay/Late Payment of Estimated Tax

Underpayment or late payment of installments of estimated tax may result in additional charges for the period from the due date of each installment until paid, or until the due date for filing the tax return, whichever is earlier. The additional charges will be assessed by the Franchise Tax Board when the corporation files its franchise tax return. However, FTB 5806 may be used to determine if an exception to the estimated tax penalty exists and/or to compute the penalty.

Step 3 — Filing Returns

Each bank or corporation must file a corporation franchise tax return (Form 100 or Form 100S) regardless of whether it was inactive or sustained a loss. The return is generally due within two months and 15 days after the close of the income year, except that a return for a farmers' cooperative association, described in Section 24404 of the Revenue and Taxation Code, is due within eight months and 15 days after the close of its income year. Special rules exist for short period returns. See Form FTB 100 and 100S for more information.

An automatic extension of time for filing the return is granted for a period of seven months after the original due date (see FTB 3539, Instructions for Automatic Extension for Corporations and Exempt Organizations).

Penalties

Failure to file a timely return

Any corporation that fails to file Form 100 or Form 100S on or before the original due date or extended due date is assessed a penalty. The penalty is 5% of the tax due, after any timely payments and credits, for each month, or part of the month, Form 100 or Form 100S is not filed. This penalty may not exceed 25% of the unpaid tax.

Failure to pay total tax by due date

Any corporation that fails to pay the total tax shown on Form 100 or Form 100S by the original due date is assessed a penalty. The penalty is 5% of the unpaid tax, plus 0.5% for each month, or part of a month (not to exceed 40 months), the tax remains unpaid. This penalty may not exceed 25% of the unpaid tax.

Note: If a corporation is subject to both the penalty for failure to file a timely return and the penalty for failure to pay the total tax by the due date, a combination of the two penalties may be assessed, but the total will not exceed 25% of the unpaid tax.

If the corporation meets the requirements of the Electronic Funds Transfer (EFT) program, payment must be made through EFT. Payment by other means will result in a penalty of 10% of the amount paid. For more information see FTB 3817, Electronic Funds Transfer Information Guide.

Forms

Forms and instructions for Form 100-ES and filing Form 100 or Form 100S, will be mailed to the last known address of record, which may be that of the attorney who handled the incorporation or qualification in California. It is the responsibility

of the corporation to furnish the Franchise Tax Board with the current address of record. Failure to receive the forms does not relieve the bank or corporation from these obligations.

Installment Due Dates and Amounts of Estimate Tax — Accounting Period of 12 months

Installment	Due Date	Amount Payable
1	15th day of the 4th month of the income year	25% of net income multiplied by the applicable estimated tax rate, but not less than the minimum franchise tax, if applicable.
2	15th day of the 6th month of the income year	50% of net income multiplied by the applicable estimated tax rate less amount of prior payment.
3	15th day of the 9th month of the income year	75% of net income multiplied by the applicable estimated tax rate less amount of prior payment.
4	15th day of the 12th month of the income year	100% of net income multiplied by the applicable estimated tax rate less amount of prior payment.

Installment Due Dates and Amounts of Estimate Tax — Accounting Period Less Than 12 Months (First Year Only)

Fiscal year taxpayers should adjust dates accordingly

If income year (Calendar Year) begins:	Number of Installments	Percentage of Estimated Tax Due On or Before the 15th Day of			
		April	June	September	December
January 1 through January 16	4	25%	50%	75%	100%
January 17 through March 16	3		33⅓	66⅔	100%
March 17 through June 15	2			50%	100%
June 16 through September 15	1				100%
September 16 through December 31	None				

Notes which apply to the above tables:

- To compute your tax payment, first multiply your estimated taxable income by the applicable rate as follows: Corporations, use 9.3%; S corporations, use 1.5% (for income years beginning prior to January 1, 1994 use 2.5%); Banks and financials, call or write Franchise Tax Board for the current Bank and financial rate. Then apply the percentages provided in the table above.
- Any installment may be paid before a timely filed date prescribed.
- An overpayment from the prior year may be credited to the first installment as of the first installment due date or the date of payment, whichever is later.
- The overpayment from a delinquent filed prior year return is credited as of the first estimate installment due date, the date of the payment or the date the delinquent return was filed, whichever is later. For more information, refer to federal Rev. Rul. 85-58, 1984-1 C.B. 254.

Other California State Taxing Agencies

BOARD OF EQUALIZATION

Consumer Use Tax Division. (916) 445-9524
Sales and Use Tax (Out of State). (916) 322-2010
Sales and Use Tax (Within California)
Sacramento District Office. (916) 255-3350
District Offices in other cities: See the white pages
of your local telephone directory
Environmental Fees Section (916) 323-9555
California Hazardous Substances Tax, California Solid
Waste Disposal Site Cleanup and Maintenance
Fees, and Underground Storage Tank Fees
Excise Taxes Section (916) 322-9651
Cigarette and Tobacco Products, Tax, Alcoholic
Beverage Tax, Emergency Telephone Users Surcharge,
Motor Vehicle Fuel License Tax, Energy Resources
Surcharge, California Tax on Insurers, California
Tire Recycling and Oil Spill Prevention and Response

STATE CONTROLLER'S OFFICE

Gas Tax. (916) 445-7392

EMPLOYMENT DEVELOPMENT DEPARTMENT (State Disability Insurance, Personal Income Tax Withholding and Unemployment Insurance)

Current Withholding Rates. (916) 255-1965
EDD Forms. (916) 322-2835
Out of State Employers. (916) 464-1056

How to Get California Tax Information

F.A.S.T. Toll-Free Phone Service

Fast Answers about State Taxes (F.A.S.T.) is the toll-free phone service you can use to get recorded answers to many of your questions about California taxes. You can also order current year California tax forms.

You must have a push-button tone phone to use F.A.S.T. If you have a rotary dial or other non-tone phone, see the "Regular Toll-Free Phone Service" information.

When Is F.A.S.T. Available?

To answer your questions, F.A.S.T. is available 24 hours a day, seven days a week. To order forms or to find out about your tax refund, F.A.S.T. is available:

January 3 – June 30, 1994

Monday – Saturday . . . 6:00 a.m. to 10:00 p.m.

July 1 – December 31, 1994

Monday – Friday . . . 6:00 a.m. to 10:00 p.m.

How To Use F.A.S.T.

1. Have paper and pencil handy to take notes.
2. Call the F.A.S.T. toll-free phone number:
From within the United States 1-800-338-0505
From outside the United States (not toll-free) 1-916-854-6600

To Get Information — If you need an answer to any of the following questions, enter the correct code after you reach the F.A.S.T. number.

Code – Prefiling Assistance

- 715 – If my actual tax is less than the minimum franchise tax, what figure do I put on line 22 of Form 100?
- 717 – What are the tax rates for corporations?
- 718 – How do I get an extension of time to file?
- 722 – When do I have to file a short-period return?
- 730 – May I claim net operating losses in the first year?

- 731 – Are corporations allowed to use MACRS/ACRS or Section 179 expensing?
- 733 – Can the prepayment to the Secretary of State be applied to my last year of business?
- 734 – What is the difference between franchise tax and income tax?

S Corporations

- 704 – Is an S corporation subject to the minimum franchise tax?
- 705 – Are S corporations required to file estimate payments?
- 706 – What forms do S corporations file?
- 707 – The tax for my S corporation is less than the minimum franchise tax. What figure do I put on line 21 of Form 100S?
- 708 – Where do S corporations make the state tax adjustment on Schedule K-1(100S)?

Exempt Organizations

- 709 – How do I get tax exempt status?
- 710 – Does an exempt organization have to file Form 199?
- 735 – How can an exempt organization incorporate without paying corporation fees and costs?
- 736 – I have exempt status. Do I need to file Form 100 or Form 109 in addition to Form 199?

Minimum Tax and Estimate Tax

- 711 – Why can't I claim my prepayment tax as credit or estimate payment on my return?
- 712 – What is the minimum franchise tax?
- 714 – I'm not doing business; do I have to pay the minimum franchise tax?
- 716 – When are my estimate payments due?

Billings and Miscellaneous Notices

- 713 – Why do I have an additional \$200 adjustment on my corporation return?
- 723 – I received a bill for \$250. What is this for?
- 728 – Why was my corporation suspended?
- 729 – Why is my subsidiary getting a request for a return when we file a combined report?

Tax Clearance

- 724 – How do I dissolve my corporation?

- 725 – What do I have to do to get a tax clearance?
- 726 – How long will it take to get a tax clearance certificate?
- 727 – My corporation was suspended/forfeited. Can I still get a tax clearance?

Miscellaneous

- 700 – Who do I need to contact to start a business?
- 701 – I need a state ID number for my business. Who do I contact?
- 702 – Can you send me an employer's tax guide?
- 703 – How do I incorporate?
- 719 – How do I properly identify my corporation when dealing with the Franchise Tax Board?
- 720 – How do I change my corporation name?
- 721 – How do I change my accounting period?
- 732 – What is the Water's-Edge Election?
- 737 – Where do I send my payment to?
- 738 – What is electronic funds transfer?
- 739 – How do I get a copy of my state corporate tax return?

Regular Toll-Free Phone Service

TELEPHONE ASSISTANCE

Our regular toll-free telephone service is available from 7:00 a.m. until 8:00 p.m. Monday through Friday from the first working day in January through April 15. The best times to call are between 7:00 and 10:00 in the morning and between 6:00 and 8:00 in the evening. Service is also available from 8:00 a.m. through 5:00 p.m. on the two Saturdays prior to April 15. After April 15, service is available Monday through Friday, between 8:00 a.m. and 5:00 p.m.

From within the United States, call 1-800-852-5711

From outside the United States, call (not toll-free) 1-916-845-6500

For hearing impaired with TDD, call. 1-800-822-6268

In Person

Addresses of Franchise Tax Board district offices are shown below. You can get information and California tax forms, and you can resolve problems involving your corporation account. Our district offices are open Monday through Friday from 8:00 a.m. to 5:00 p.m.

California Offices

Bakersfield 1430 Truxtun Avenue
Burbank 333 N. Glenoaks Blvd.
Fresno 2550 Mariposa Street
Long Beach 245 West Broadway
Los Angeles 300 South Spring Street
Oakland 1970 Broadway
Sacramento 8745 Folsom Blvd.
San Bernardino 215 North D Street

California Offices *continued*

San Diego 5353 Mission Center Road
San Francisco 50 Fremont Street, 9th Floor
San Jose 96 North Third Street
Santa Ana 600 West Santa Ana Boulevard
Santa Barbara 360 South Hope Avenue
Santa Rosa 50 D Street
Stockton 31 East Channel Street
West Covina 100 North Barranca Street

Out of State Offices

Chicago, Illinois One North Franklin
Houston, Texas 1415 Louisiana
Manhasset, New York 1129 Northern Blvd.
New York, NY 1212 Avenue of the Americas

Letters

We can serve you quickly if you call us or visit a district office for information to complete your California tax return. However, you may want to write to us if you are replying to a notice we sent you, or to get a reply in writing.

If you write to us, be sure to include the California corporation number and your daytime and evening telephone numbers in your letter. Send your letter to:

**Franchise Tax Board
P.O. Box 942857
Sacramento, CA 94257-0540**

We will acknowledge your letter within six to eight weeks. In some cases, we may need to call you for additional information.